



NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

10 G Street, NE, Suite 710
Washington, D.C. 20002
202/737-0900

Fax: 202/783-3571

E-mail: info@nasaa.org

Web Address: <http://www.nasaa.org>

TESTIMONY OF TANYA SOLOV

Illinois Securities Director
Broker-Dealer Section Chair
North American Securities Administrators Association, Inc.

Before the
Special Committee on Aging
United States Senate

“Protecting Senior Citizens Against Internet Investment Fraud ”

March 23, 2004

Chairman Craig, Ranking Member Breaux and Members of the Committee,

I'm Tanya Solov, Illinois Securities Director and Chair of the Broker-Dealer Section of the North American Securities Administrators Association, Inc. (NASAA).¹ I am honored to have the opportunity to appear before your Committee to present the states' views on protecting senior citizens against investment fraud on the Internet.

Overview

The securities administrators in your states are responsible for the licensing of firms and investment professionals, registration of certain securities offerings, examination of broker-dealers and investment advisers, investor education and the enforcement of state securities laws. Like me, ten of my colleagues are appointed by their Secretaries of State, others by their Governors, and five fall under the jurisdiction of their states' Attorneys General. We have been called the "local cops on the securities beat," and I believe that is an accurate characterization.

As the securities director for the state of Illinois, I interact with elderly investors who approach me at senior investor education seminars or call my office with complaints. My office works with criminal authorities to prosecute companies and individuals who commit crimes against seniors, and brings civil actions for injunctions, restitution and penalties against companies and individuals who commit securities fraud. We also educate seniors through publications, videos and seminars so that they may be better able to protect themselves.

The role of state securities regulators has become increasingly important as Americans rely on the securities markets to prepare for their financial futures. Today, we are indeed a "nation of investors" with over half of all American households now investing in the securities markets. And, we are a nation with a growing senior population.

Investment Fraud Against Seniors

In a perfect storm, a number of significant events come together to create a devastating impact. State securities regulators are deeply concerned that a perfect storm for investment fraud is brewing and our nation's 35 million seniors are most at risk. The collapse of the bubble economy, coupled with low returns on income-generating investments and rising costs for medical insurance, prescription drugs and basic living expenses, have driven seniors to seek higher returns on investments. Many view the Internet as a source for alternative investment opportunities.

¹ The oldest international organization devoted to investor protection, the North American Securities Administrators Association, Inc., was founded in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Canada, Mexico and Puerto Rico. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

With the Internet becoming a common part of daily life for increasing numbers of people, it should be no surprise that con artists have made cyberspace a prime hunting ground for victims. Seniors are rapidly discovering the Internet, opening up new vistas and exposing themselves to insidious new scams. A 2002 SeniorNet² survey on Internet use reports that 13% of senior Internet users are performing investment transactions online.

Most seniors do not surf the Internet looking for investment opportunities. Many use the Internet as a reference tool based on a solicitation, or information that they received from a friend, an associate, or during an investment seminar. Others may happen upon an investment website unintentionally, or they may be recipients of unsolicited emails touting certain investments. Older Americans who are duped via the Internet are highly intelligent and many are familiar with the Internet because they used the computer during the course of their employment. They may have utilized the computer to research and verify legitimate information, but now they are accessing professional looking websites that contain misrepresentations and fraudulent information.

The Internet has made it simple for a con artist to reach millions of potential victims at minimal cost – turning the information superhighway into a road of ruin for victims of cyber fraud. Investment scam artists don't have to spend money setting up boiler rooms, making phone calls or sending mailings. Many of the online scams that state regulators see today are merely new twists on schemes that have been fleecing offline investors for years.

We have seen the Internet used for legitimate business purposes such as direct offerings of securities through company Web sites and online brokerage services. Conversely, older investors are targeted with increasingly complex investment scams involving unregistered securities, promissory notes, charitable gift annuities, viatical settlements, and Ponzi schemes all promising inflated returns. Fraud can be especially damaging for older investors because their portfolios have less time to recover.

No one knows exactly how many older Americans are victims of investment fraud on the Internet. Often, older victims don't report crimes because they don't want people to know they have lost money, or made an unsound investment. Also, they don't know how or where to complain.

² SeniorNet is a nonprofit organization of computer-using adults, age 50 and older. SeniorNet's mission is to provide older adults education for and access to computer technologies to enhance their lives and enable them to share their knowledge and wisdom.

So what can be done to combat Internet fraud? Seniors and all investors should always call their state securities regulator if they suspect they have been the victims of investment fraud. You can find a list of regulators on the NASAA website at www.nasaa.org

State regulators can tell you whether the investment product is licensed for sale in your state and whether the salesperson has a history of wrongdoing. The best advice is to call your state securities regulator to check out any investment before investing.

Examples of State Securities Enforcement Cases

My colleague, Kansas Securities Commissioner Chris Biggs, recently announced that an investment scam promoted over the Internet resulted in a prison sentence of 44 months for the con artist who pled no contest to three felony counts. In that case, the fraudster was operating under the business name Free Market Brokers and Consulting and was using the Internet and direct mail to solicit investors for a company called Venture Capital Investments. He guaranteed a high return on the investments and claimed that the investments were FDIC insured, when in fact, it was a complete fraud. In only five weeks, this fraudster raised about \$85,000 from 30 investors, most of whom were elderly. The Kansas securities regulators pursued this fraud and recouped much of the money for the investors.

In my own state of Illinois, seniors and other investors were solicited to send small sums of money, in some instances as little as \$100, to put into an entity that claimed to invest in developing countries. In the end, the Internet con artist, who was a retired electrician in a small town in Illinois, collected over \$20 million, mostly through cash sent to his home. Because he spent most of his investment locally, many of his purchases were seized, forfeited and sold. Every investor who applied for restitution received their money back and the scamster and 12 other defendants were convicted and sent to jail.

State securities regulators believe in combining enforcement efforts and financial education as the dual approach to protect investors against fraud. Earlier this year, as part of our effort to educate investors before they invest, state securities regulators identified the Top 10 scams, schemes and scandals investors are likely to face in 2004, based on prevalence and seriousness. There was a confluence of both senior investment fraud and Internet fraud included in this year's Top 10. Many of the scams, which reside on the Internet, have existed for years prior to the creation of this technology. What has given them new life, power and reach is the power of the medium.

Senior Outreach Initiative and Senior Investor Resource Center

State securities administrators from around the country have undertaken a Senior Outreach Initiative that is designed to educate seniors to protect themselves from investment fraud.

The Senior Outreach Initiative is:

- Promoting programs and materials developed by state securities regulators that include brochures, videos, and outreach seminars presented to organizations such as the Golden Kiwanis and Senior VFW groups.
- Developing an anti-fraud education program that utilizes volunteer/peer group educators and networks. This program is based on highly successful initiatives that have been launched in California and Ontario. The blueprint for this program will allow states securities regulators to tailor it and effectively launch it in their own jurisdictions.
- Building a clearinghouse for new and existing state programs designed specifically for Seniors. This clearinghouse can be accessed through the Senior Investor Resource Center on the NASAA website at: (www.nasaa.org/nasaa/sirc/sirc.asp)

The Senior Investor Resource Center, sponsored by NASAA and launched last fall, is designed specifically for senior audiences.

The website includes:

- A checklist of questions seniors should ask before making an investment decision;
- Common sense solutions to protect assets from investment fraud;
- Information about the current top frauds targeting seniors;
- Contact information for securities regulators in each of the 50 states, the District of Columbia, Puerto Rico, Canada, Mexico;
- An Investors Bill of Rights and Investor Fraud Awareness Quiz and;
- Links to a variety of investor education publications and programs offered by state securities regulators and others to help seniors fight investment fraud.

Conclusion

These are dangerous economic times for seniors. Now, more than ever, American investors need more, not fewer cops on the securities beat. This Committee's examination of Internet fraud as it affects the growing "Online" senior population is an important step in highlighting the problem and working toward a solution. My Office and other State Securities Administrators will continue to play an active role in protecting seniors whether it is a large multi-million dollar scam or a single defrauded senior. I thank the Chairman and each member of this Committee for allowing me the opportunity to appear today. I look forward to answering any questions you have and providing additional assistance to you in the future.